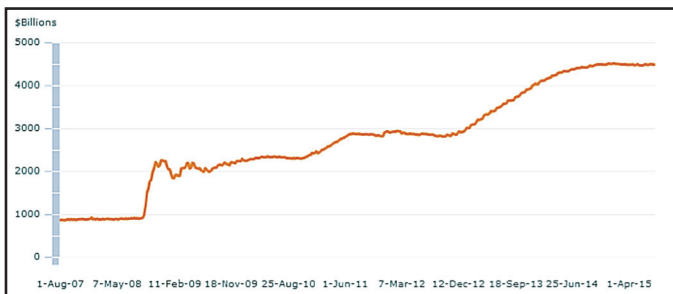


Local Government Investment Pool

## TheNEWS

## What to Expect When the Fed Raises Rates...

**1. More Questions than Answers** - The current interest rate environment is unprecedented. At the end of July 2015, the Fed's balance sheet remained near \$4.48 trillion, the highest on record. The Fed funds target rate has been at 0-0.25% since December of 2008, a record low.



\*Source: Federal Reserve Website

All of this points to the necessity of the Fed's balance sheet requiring substantial restructuring. When the Fed raises rates, there is an expectation that the markets will start working in a more normal fashion. But a normal market environment has never seen a Fed balance sheet this large. The Fed will have to reduce the size of its balance sheet in order to maintain some control over interest rates. Also, when the Fed raises rates, it is expected to target a range, not a specific level, as in the past. We expect the next rate hike to target a range of 0.25% - 0.50%. This will allow the Fed some "wiggle room" in meeting its new target range on a daily basis.

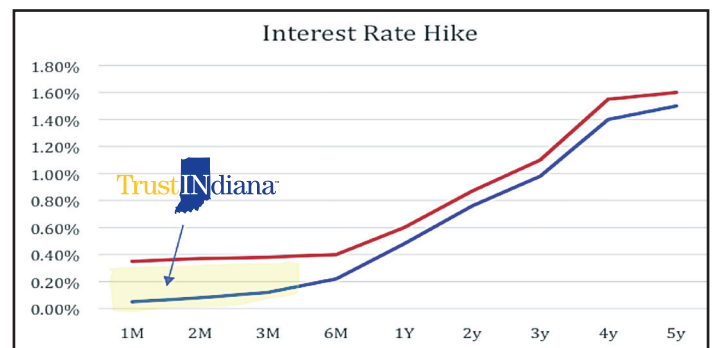
The truth is, due to these unprecedented times, nobody is exactly sure how the next interest rate hike will go. There are more questions than answers. When is the Fed going to raise rates? How much are they going to be raised? How often will they get raised? Could they go back down if the economy does not respond positively?

**2. Proceed with Caution** - With such uncertainty in the economy and the market surrounding the next interest rate hike, investors of public money should proceed with caution. With low investment rates and high banking regulations (public deposits are not attractive to many banks anymore), many governmental entities are left asking themselves "Where can I get some more yield?" Just remember **SLY**. **S**afety, **L**iquidity, **Y**ield. No public

finance director or treasurer was ever called a hero by taking risk in the market and having it work out. But if an investment were to backfire, that public official or treasurer might be looking for a new job.

**3. Budget Conservatively** - Many governmental entities are entering budget season. With an interest rate hike looming on the horizon, is it safe to budget some interest income...finally? Not so fast. Remember, no one knows when, or just how the next rate hike will go. One thing that has been made clear by the Fed is that this is a "dip the toes in" kind of situation, as opposed to a swan dive from the Olympic platform. Rate hikes will be slow and methodical. So don't expect interest income to be at pre-2008 levels in 2016.

**4. LGIP Rates Will Go Up!** Due to the nature of LGIPs, like TrustINDiana, rates will go up when the Fed raises rates. Most LGIPs have a very short WAM (Weighted Average Maturity). For example, the WAM for TrustINDiana has been around 35 days for the past several quarters. With such a short WAM and, the fact that it is likely to get shorter as the Fed raises rates, LGIPs have securities maturing on a daily basis. When interest rates go up, LGIPs are able to quickly reinvest maturing securities at higher rates.



\*Source: Public Trust Advisors

That being said, there are a few other factors to consider. A 0.25% increase in the Fed funds target rate does not mean a 0.25% instantaneous increase in LGIP rates. As you may have noticed, rates have been creeping up gradually. This is due to the anticipation of the rate hike from the Fed being preemptively priced into the market. When the Fed rate hike does occur, we expect the yield in TrustINDiana to go up. When and to what extent the Fed raises its target rate is still a big question mark. However, in our opinion, LGIP rates should continue to rise modestly in the coming months.



## TheECONOMY

### Shockwaves from the Far East

For the past few weeks, the world's financial markets have experienced heightened turbulence stemming from concerns over the strength of the global economy. China is the world's second largest economy, and its economic data has been trending negatively for quite some time. Compounding these concerns, the recent collapse of its stock market coupled with the government's intention to devalue the Yuan have sent up more than a few red flags. This has had a spillover effect into emerging market economies as well, which are dependent on China as a strong trading partner.

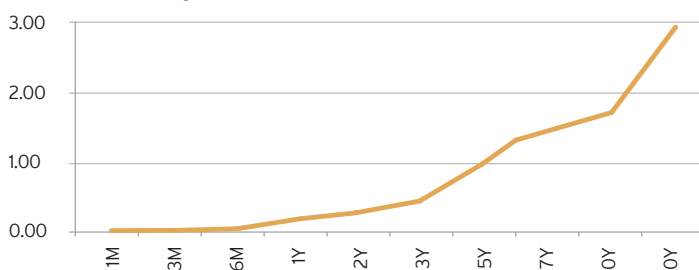
Unfortunately, the U.S. markets have not been immune. The major stock indexes were down over 6 percent for August, finishing with their worst monthly losses since May 2012. Fundamentally, the domestic economic data remains solid. Strong consumer confidence and continued growth in the labor market should help maintain the economy's momentum after growing at 3.7 percent in the second quarter. It's possible that this is just a long-overdue correction in the stock market after years of capital appreciation.

As for the outlook for the Federal Reserve (Fed), this may delay action until market volatility subsides. Recent comments from the Fed would indicate some hesitance to raising rates in the face of such turbulence. However, with the U.S. economy proving resilient and mounting concerns over the prolonged use of a zero interest rate policy, the Fed may just decide that it's time to get on with it. Without the ability to lower rates any further, the Fed has precious few tools to combat the next economic downturn. With this in mind, the markets are still pricing the Fed to hike rates before the end of the year.

### Portfolio Strategy

Short-term rates continued to be well anchored by the Fed's zero interest target rate policy. However, we are preparing for the Fed to eventually lift rates before the end of the year. As always, we remain focused on safety, liquidity and then yield.

### US Treasury Curve



Source: Bloomberg

### Treasury Yields

MATURITY	9/1/15	7/31/15	CHANGE
3 Month	0.000%	0.060%	-0.060%
6 Month	0.200%	0.130%	0.070%
1-Year	0.350%	0.300%	0.050%

Source: Bloomberg

### Agency Yields

MATURITY	9/1/15	7/31/15	CHANGE
3 Month	0.070%	0.080%	-0.010%
6 Month	0.260%	0.150%	0.110%
1-Year	0.390%	0.350%	0.040%

Source: Bloomberg

### Commercial Paper Yields (A-1/P-1)

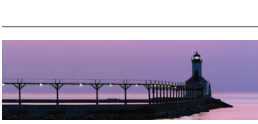
MATURITY	9/1/15	7/31/15	CHANGE
1 Month	0.190%	0.180%	0.010%
3 Month	0.290%	0.260%	0.030%
6 Month	0.480%	0.420%	0.060%
9 Month	0.610%	0.570%	0.040%

Source: Bloomberg

### Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q2 '15	3.70%
US Unemployment	July '15	5.30%
ISM Manufacturing	Aug '15	51.1
PPI YoY	July '15	-2.60%
CPI YoY	July '15	0.20%
Fed Funds Target	July 29 '15	0 - 0.25%

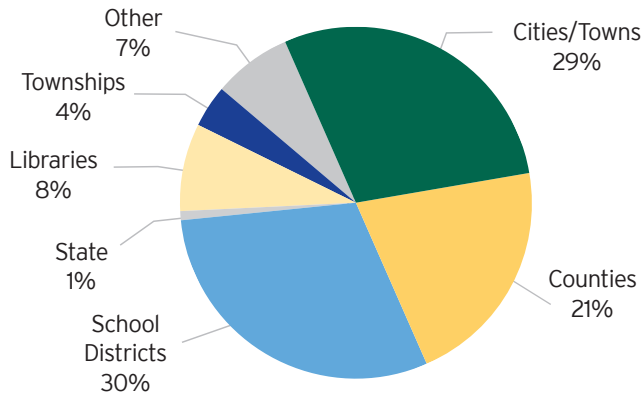
Source: Bloomberg



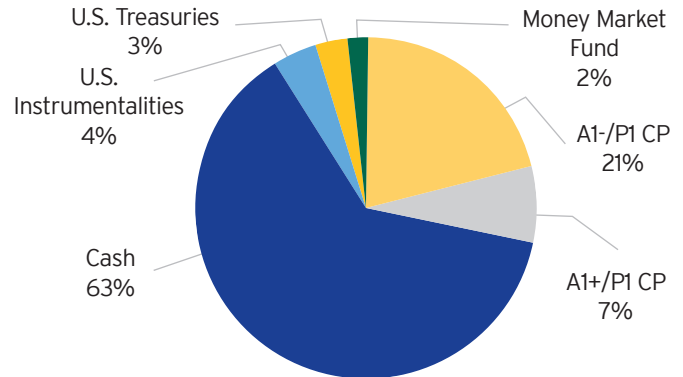
## TheFUND

### Fund Highlights as of August 31, 2015 (Unaudited)

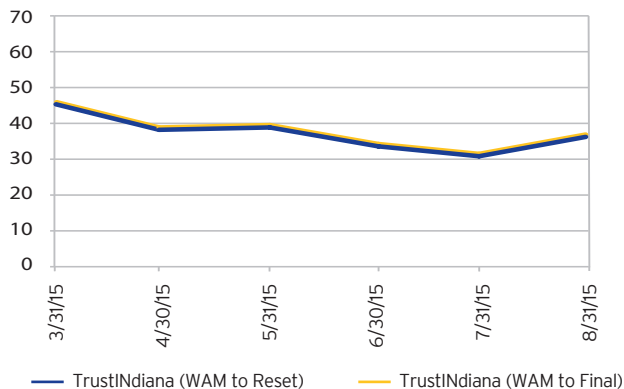
#### Participant Breakdown



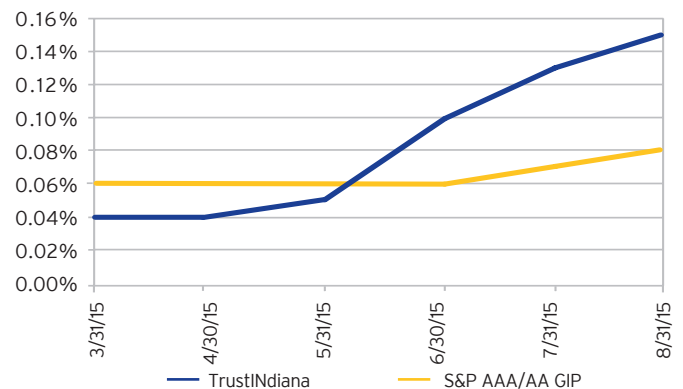
#### Portfolio Distribution



#### Weighted Average Maturity



#### TrustIndiana vs S&P AAA/AA GIP\* (30 Day Avg Yields)



Month	Avg Daily Yields**	WAM (to Reset)***	NAV	Month Ending Net Assets
Jun-15	0.10%	34	1.00	\$519,487,628.84
Jul-15	0.13%	31	1.00	\$517,775,633.16
Aug-15	0.15%	36	1.00	\$521,980,837.95

\*\* 30 day yield as of the last day of the month

\*\*\* As of the end of the last day of the month

Data Unaudited. All comments and discussion presented are purely based on opinion and assumptions, not fact, and these assumptions may or may not be correct based on foreseen and unforeseen events. The information above is not a recommendation to buy, sell, implement or change any securities or investment strategy, function or process. Any financial and/or investment decision should be made only after considerable research, consideration and involvement with an experienced professional engaged for the specific purpose. Additionally, past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.

\*The benchmark, the S&P US AAA & AA Rated GIP All 30 Day Net Yield (LGIP30D) is a performance indicator of rated GIPs that maintain a stable net asset value of \$1.00 per share and is an unmanaged market index representative of the LGIP universe. The S&P benchmark utilized in this comparison is a composite of all rated stable net asset value pools. GIPs in the index include only those rated based on Standard & Poor's money market criteria. Pools rated 'AAAm' provide excellent safety and a superior capacity to maintain principal value while those rated 'AAm' offer very good safety and a strong capacity to maintain principal value (Source: Standard & Poor's website.) The comparison between this index and the portfolio may differ in holdings, duration and percentage composition of each holding. Such differences may account for variances in yield.